

STRICTLY CONFIDENTIAL (FR) CLASS II-FOMC

*Materials for
Staff Presentation to the
Federal Open Market Committee*

February 10, 1987

CHART 1

PRINCIPAL ASSUMPTIONS

Monetary Policy

- Growth of M2 around the middle of its range in 1987 and a little slower in 1988.

Fiscal Policy

- Deficit-reducing actions of about \$25 billion in fiscal year 1988.

Other

- Foreign exchange value of the dollar declines at about a 10 percent annual rate over the forecast period.
- Oil prices average around \$17 per barrel over 1987 and 1988.

CHART 2

FEDERAL BUDGET

	FY1986	FY1987		FY1988	
		STAFF	ADMINISTRATION	STAFF	ADMINISTRATION
OUTLAYS	990	1009	1016	1046	1024
RECEIPTS	769	828	842	898	917
DEFICIT	221	181	173	148	108
HIGH EMPLOYMENT DEFICIT	173	151	n.a.	129	n.a.

DEFICIT-REDUCING ACTIONS

	FY1987 ENACTED	FY1988	
		ADMINISTRATION	STAFF
SPENDING CUTS	10	20	10
ASSET SALES	7	11	7
RECEIPT INCREASES	5	6	8
TOTAL	22	37	25

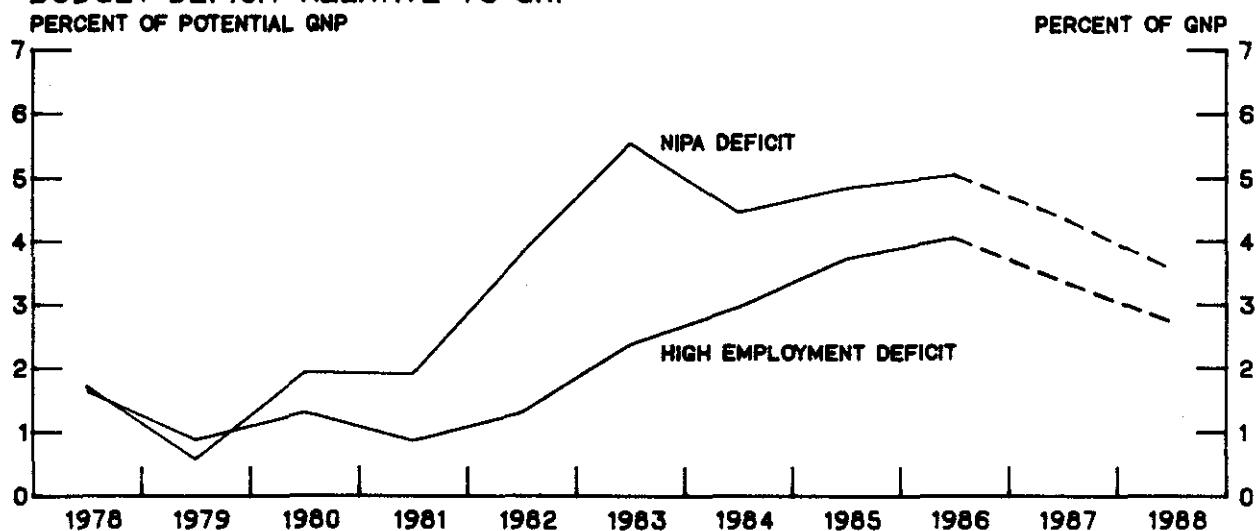
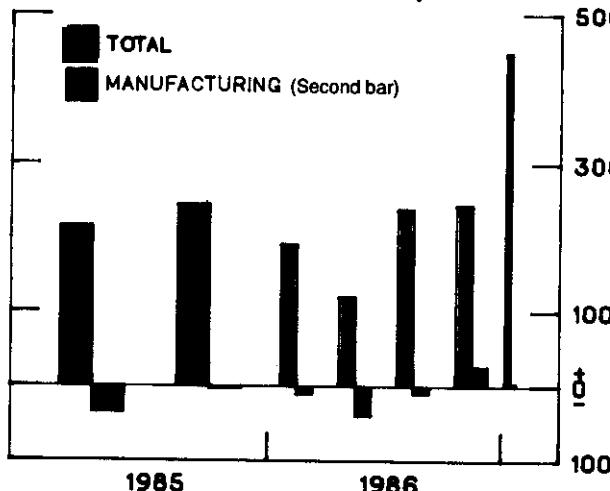
**BUDGET DEFICIT RELATIVE TO GNP
PERCENT OF POTENTIAL GNP**

CHART 3

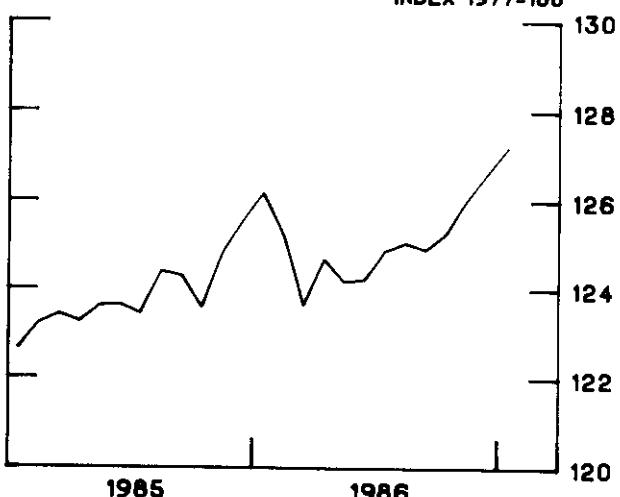
NONFARM EMPLOYMENT

AVERAGE MONTHLY CHANGE, THOUSANDS



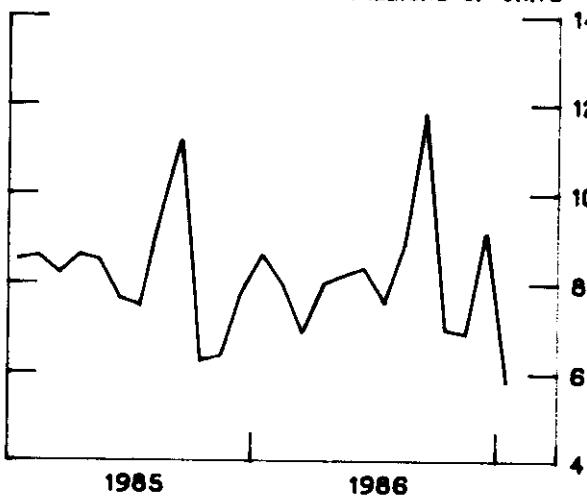
INDUSTRIAL PRODUCTION

INDEX 1977=100



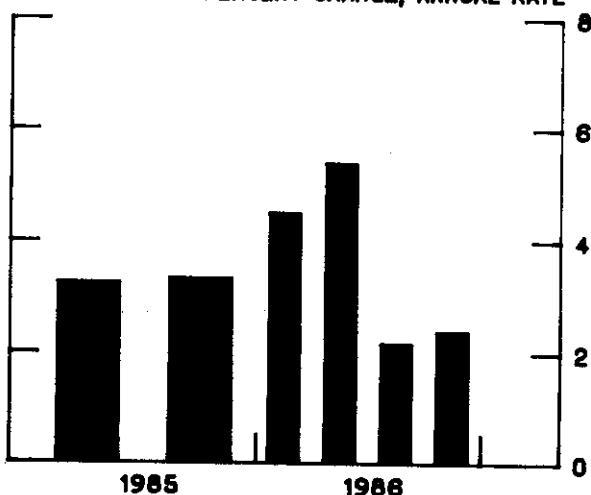
DOMESTIC AUTO SALES

MILLIONS OF UNITS



REAL CONSUMPTION LESS AUTOS

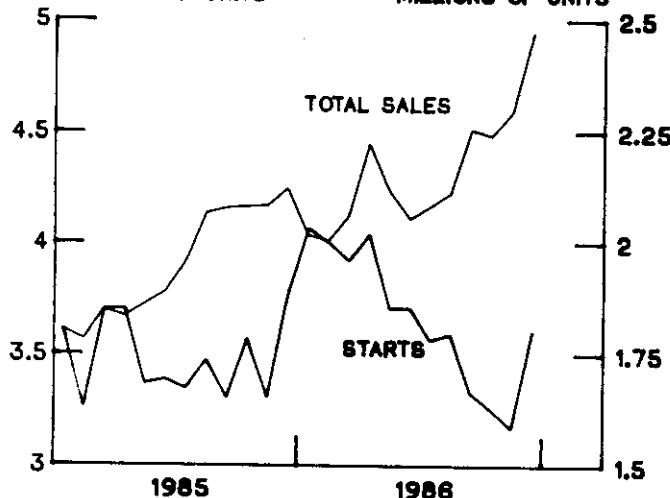
PERCENT CHANGE, ANNUAL RATE



HOUSING STARTS AND SALES

MILLIONS OF UNITS

MILLIONS OF UNITS



NEW ORDERS FOR NONDEFENSE CAPITAL GOODS

BILLIONS OF DOLLARS

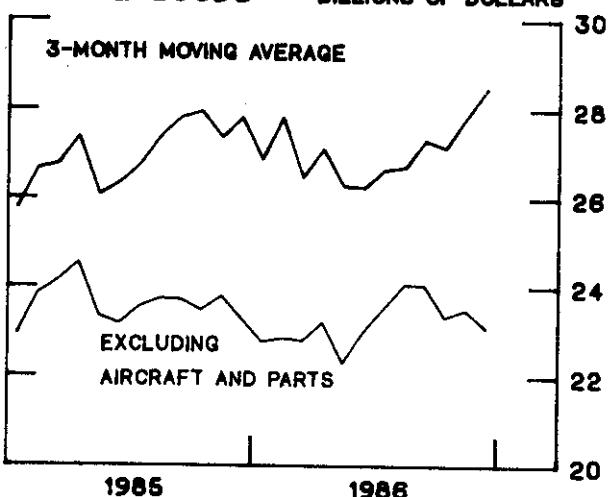
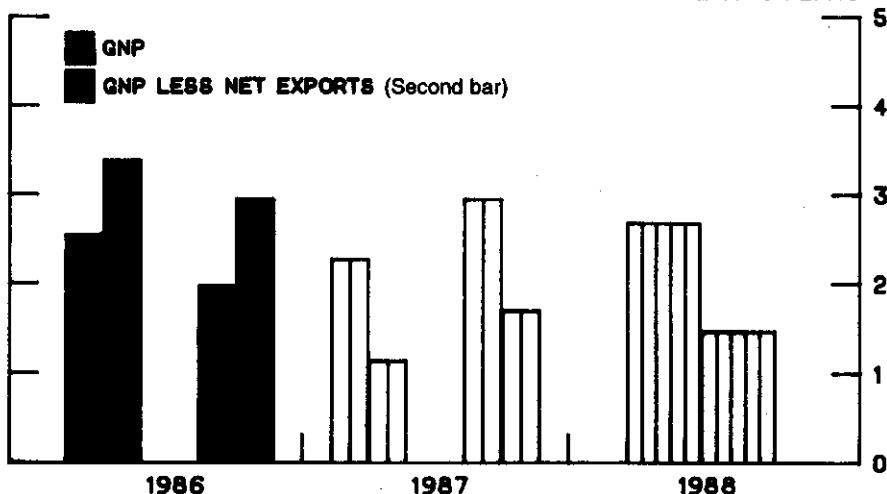


CHART 4

REAL GNP

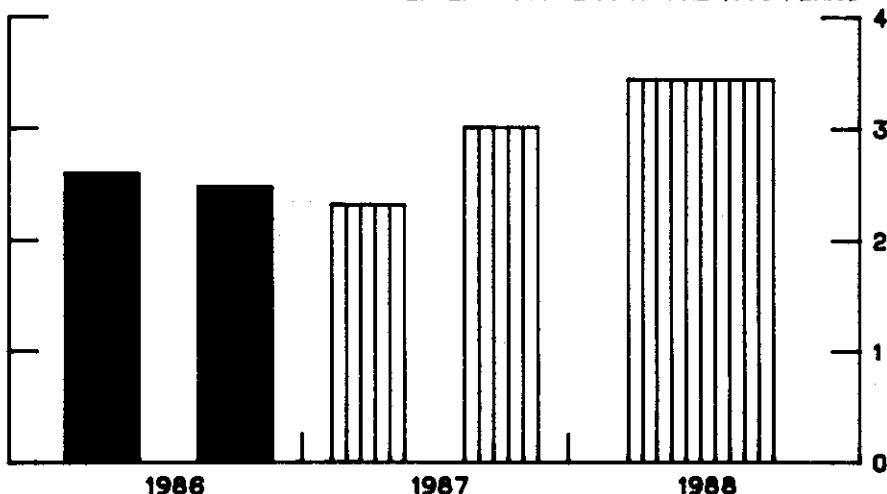
PERCENT CHANGE FROM PREVIOUS PERIOD

PERCENT CHANGE,
Q4 TO Q4

	GNP	LESS NET EXPORTS
1985	2.9	3.9
1986	2.2	2.6
1987	2.8	1.5
1988	2.7	1.5

GNP DEFULATOR

PERCENT CHANGE FROM PREVIOUS PERIOD

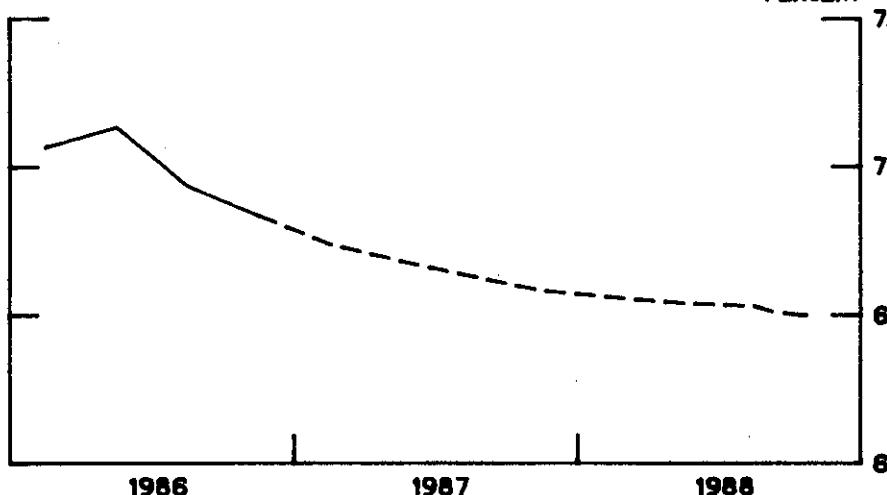
PERCENT CHANGE,
Q4 TO Q4

	PERCENT CHANGE, Q4 TO Q4
1985	3.3
1986	2.2
1987	2.9
1988	3.4

UNEMPLOYMENT RATE

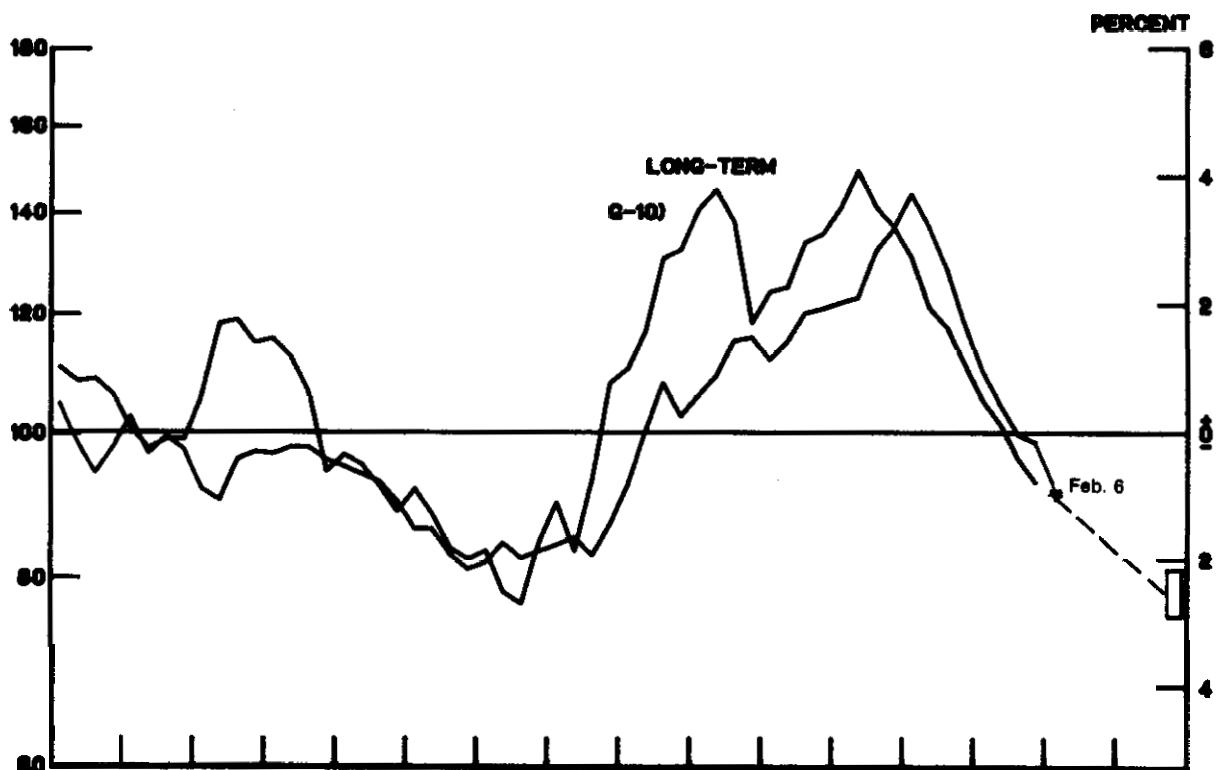
PERCENT

Q4 AVERAGE, PERCENT

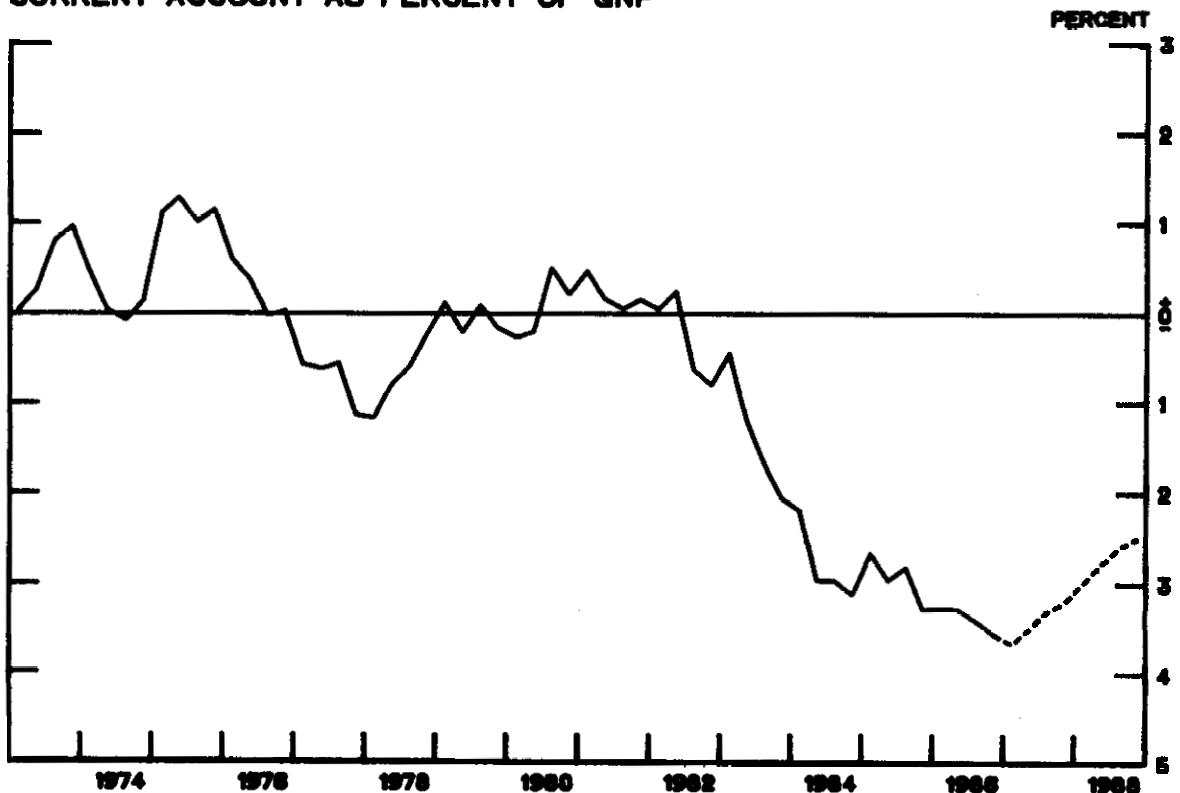


	Q4 AVERAGE, PERCENT
1985	7.1
1986	6.9
1987	6.6
1988	6.5

CHART 5



CURRENT ACCOUNT AS PERCENT OF GNP

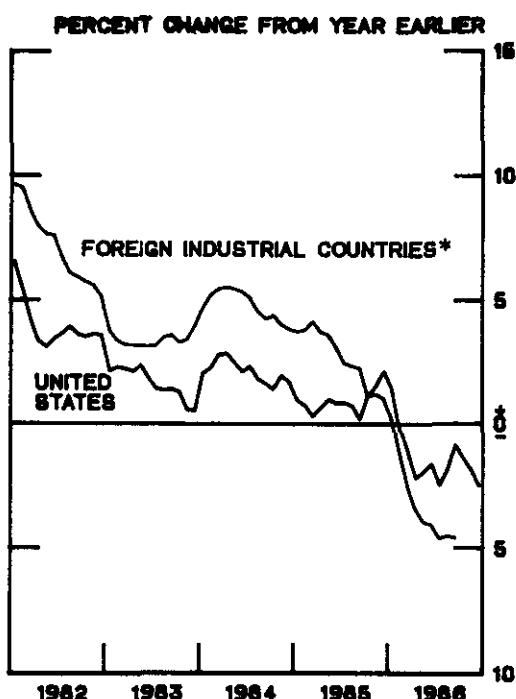


* REAL INTEREST RATES ARE CALCULATED USING A 36-MONTH CENTERED MOVING AVERAGE OF INFLATION RATES, USING STAFF FORECASTS WHERE NECESSARY

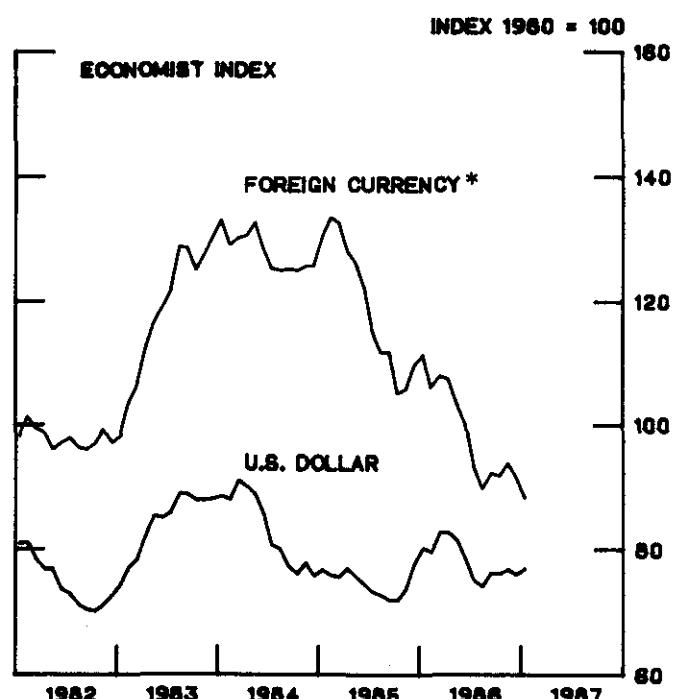
** WEIGHTED AVERAGE DOLLAR AGAINST OTHER G-10 CURRENCIES USING TOTAL 1972-76 AVERAGE TRADE ADJUSTED BY RELATIVE CONSUMER PRICES

CHART 8

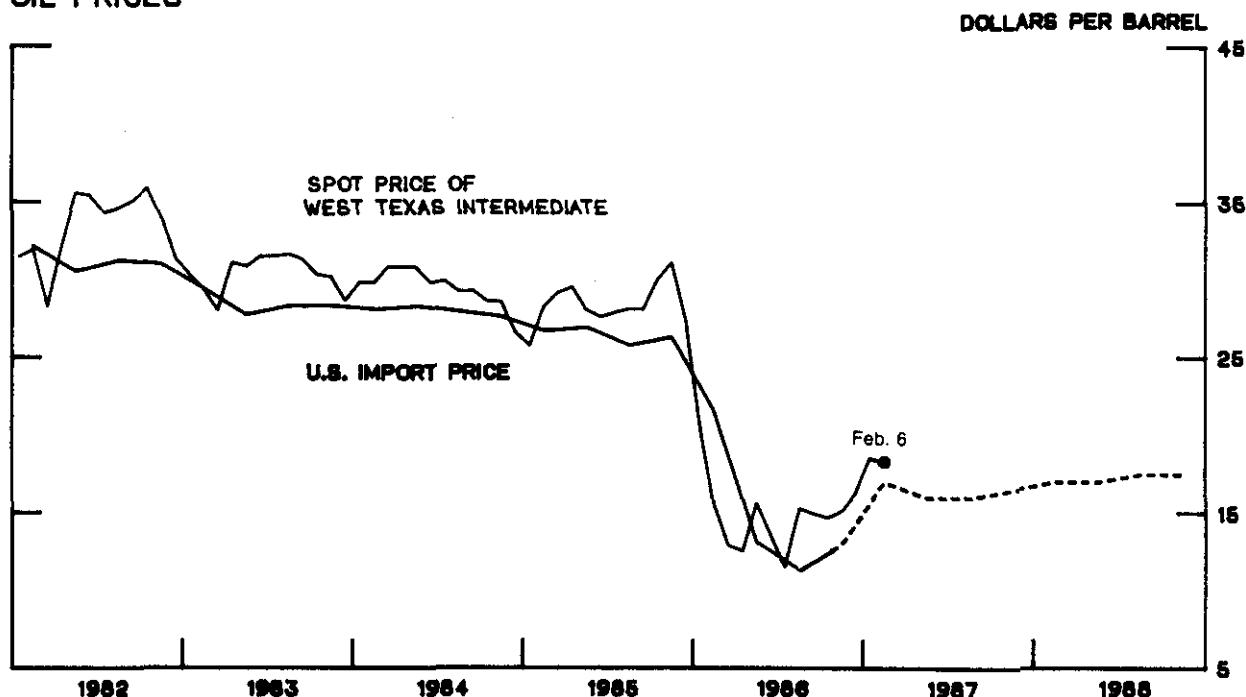
WHOLESALE PRICES



COMMODITY PRICES



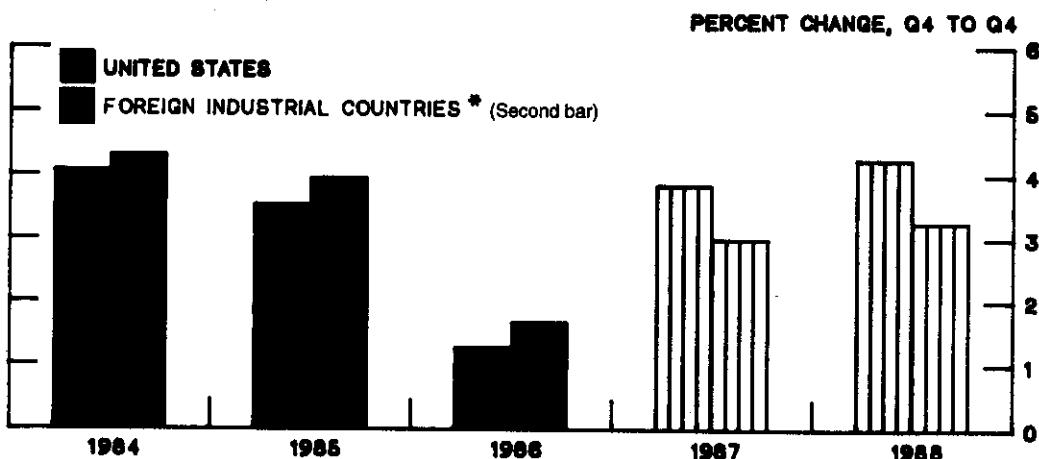
OIL PRICES



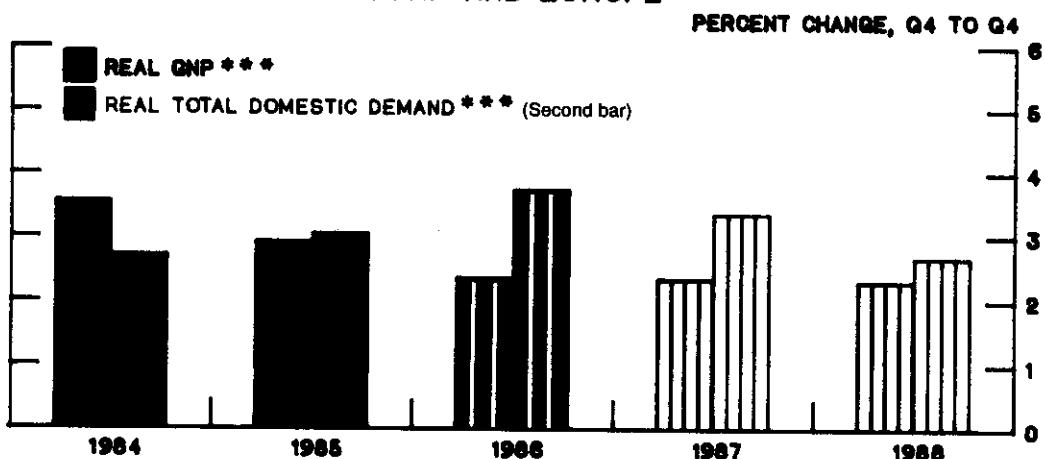
* WEIGHTED AVERAGE OF THE SIX MAJOR FOREIGN INDUSTRIAL COUNTRIES USING TOTAL 1972-76 AVERAGE TRADE

CHART 7

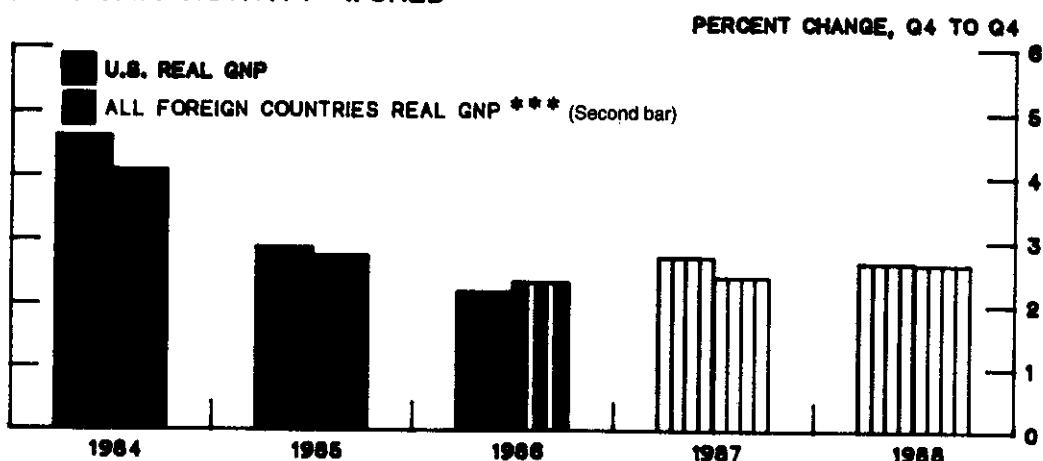
CONSUMER PRICES



ECONOMIC ACTIVITY: JAPAN AND EUROPE **



ECONOMIC ACTIVITY: WORLD



* WEIGHTED AVERAGE OF THE SIX MAJOR FOREIGN INDUSTRIAL COUNTRIES USING TOTAL 1972-76 AVERAGE TRADE

** GERMANY, FRANCE, ITALY, AND THE UNITED KINGDOM

*** WEIGHTED AVERAGE USING U.S. NON-AGRICULTURAL EXPORTS, 1978-83

CHART 8

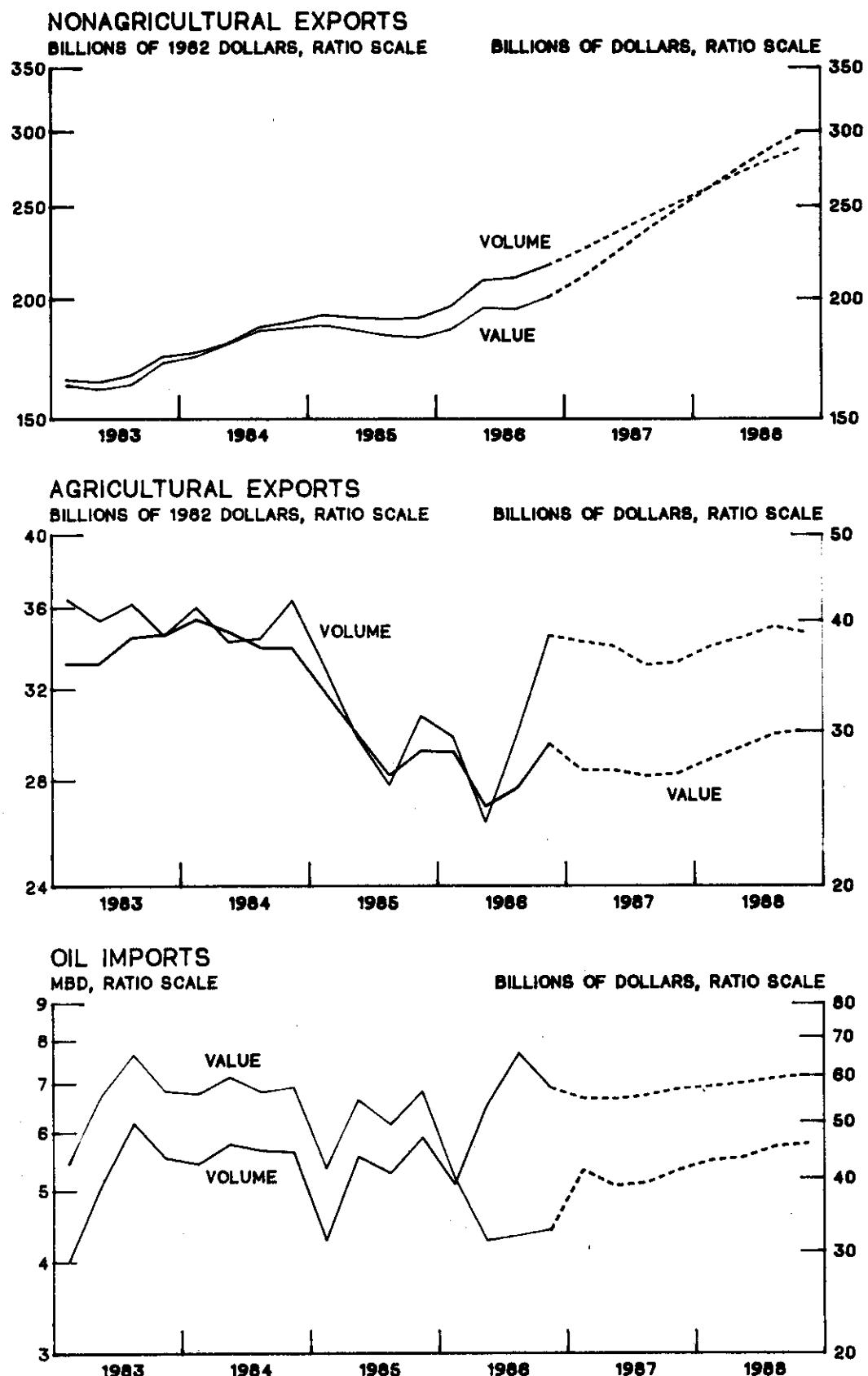


CHART 9

CHANGES IN PRICE OF NON-OIL IMPORTS*

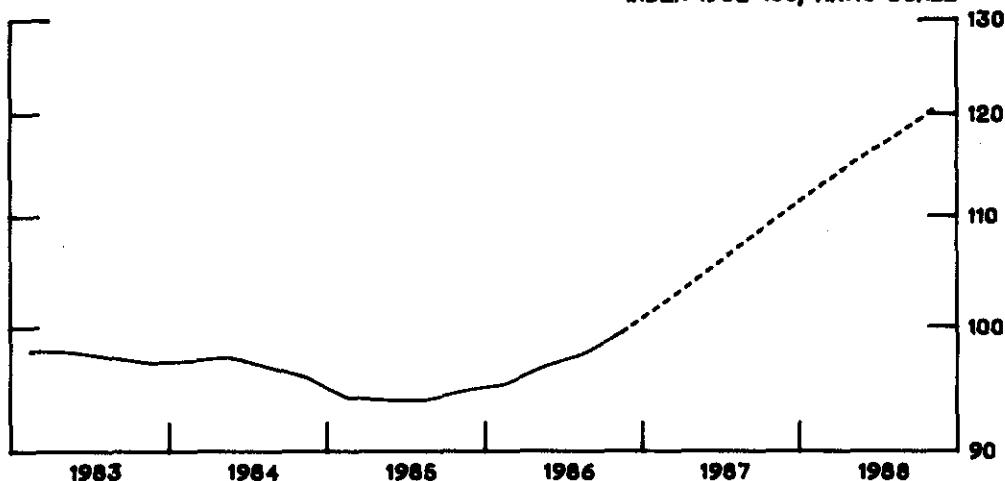
PERCENT, SEASONALLY ADJUSTED ANNUAL RATES

	<u>1985Q4</u> 1985 Q2	<u>1986Q2</u> 1985Q4	<u>1986Q4</u> 1986Q2
FEEDS, FOOD			
BEVERAGES	-0.2	19.7	-0.4
INDUSTRIAL SUPPLIES	-5.2	-4.6	4.1
CAPITAL GOODS	2.5	8.3	8.9 (7.8)
AUTOS	9.3	11.3	9.3 (7.7)
CONSUMER GOODS	4.1	6.0	8.7 (7.8)
TOTAL	2.3	6.4	7.0

* GNP FIXED-WRIGHT PRICE INDEXES; FIGURES IN PARENTHESES ARE CHANGES IN BLS INDEXES FROM JUNE TO DECEMBER 1986, ANNUAL RATES

PRICE OF NON-OIL IMPORTS

INDEX 1982=100, RATIO SCALE

**NON-OIL IMPORTS**

BILLIONS OF 1982 DOLLARS, RATIO SCALE

BILLIONS OF DOLLARS, RATIO SCALE

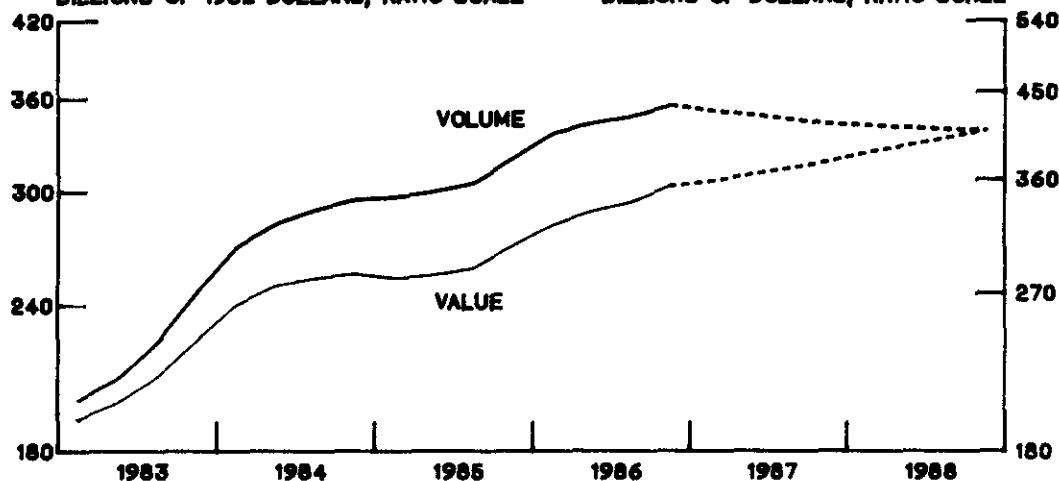
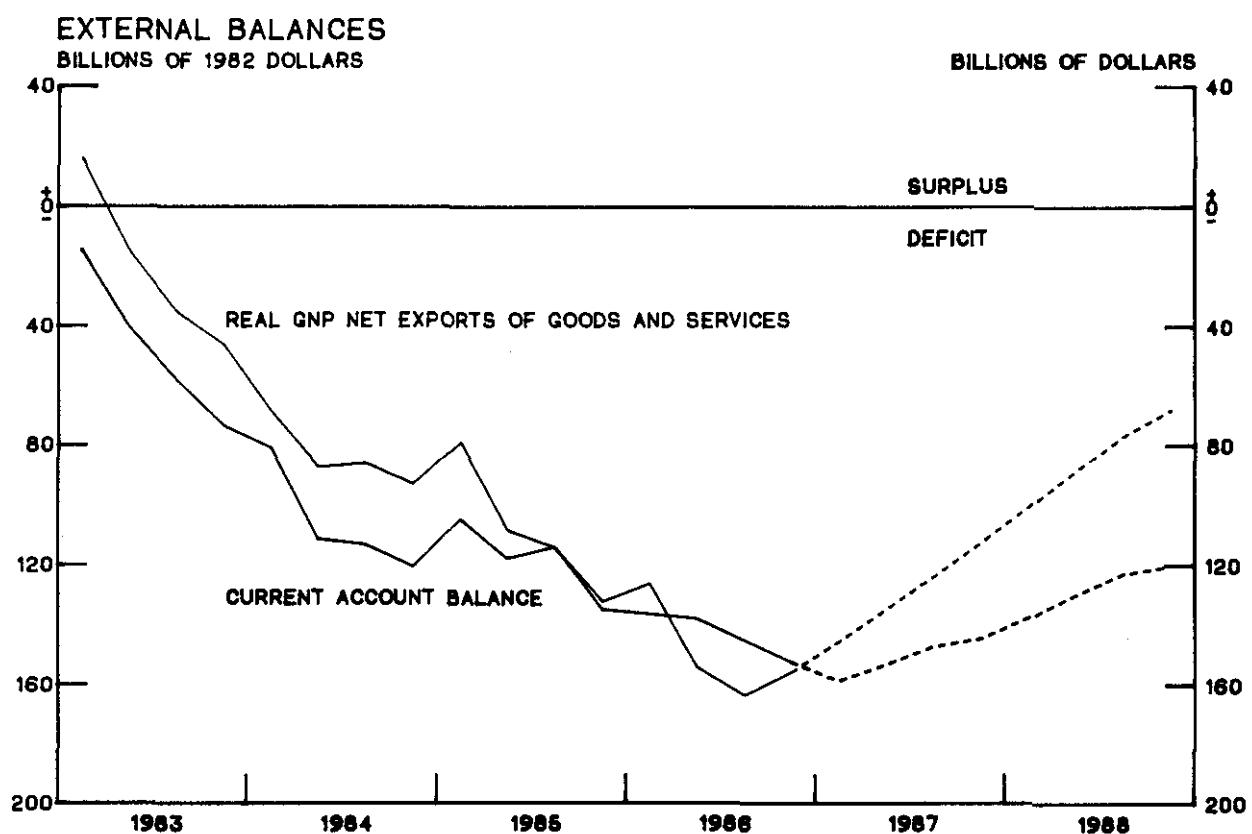


CHART 10



CONTRIBUTIONS TO CHANGES IN REAL GNP NET EXPORTS
BILLIONS OF 1982 DOLLARS, Q4 TO Q4

	1986	1987	1988
DEPRECIATION TO DATE	54	79	33
PROJECTED DEPRECIATION	--	6	25
OTHER FACTORS	-78	-42	-14
TOTAL	-24	43	44

CHART 11

U.S. CAPITAL TRANSACTIONS

BILLIONS OF DOLLARS; NET INFLOWS = +

	1983	1984	1985	1986 ^e	1987 ^p
1. NET PRIVATE AND OFFICIAL CAPITAL FLOWS	36	79	95	108	120
2. PRIVATE CAPITAL FLOWS	36	85	103	76	74
3. U.S. BANKING OFFICES	20	23	40	30	25
4. BONDS AND STOCKS ¹	14	32	60	71	61
5. DIRECT INVESTMENT ¹	9	20	2	-17	-12
6. OTHER NON-BANK FLOWS	-7	10	1	-8	0
7. U.S. AND FOREIGN OFFICIAL TRANSACTIONS	*	-6	-8	32	46
8. STATISTICAL DISCREPANCY	11	28	23	35	31
9. BALANCE ON CURRENT ACCOUNT	-47	-107	-118	-143	-151

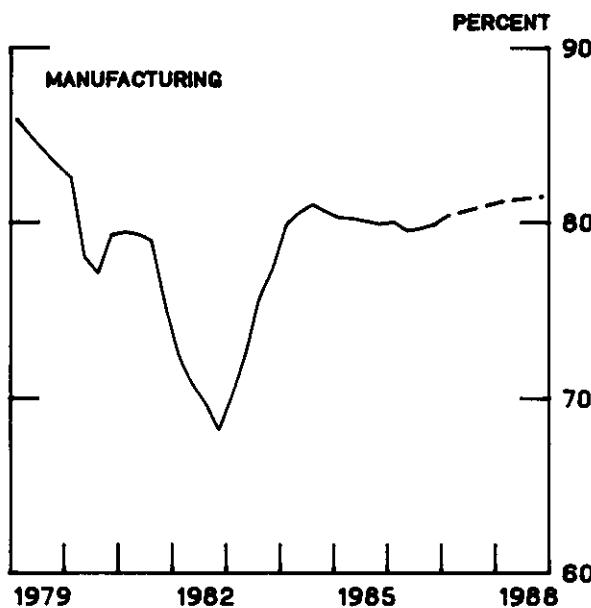
^e ESTIMATED^p PROJECTED

1 TRANSACTIONS WITH FINANCE AFFILIATES IN THE NETHERLANDS ANTILLES HAVE BEEN EXCLUDED FROM DIRECT INVESTMENT AND ADDED TO FOREIGN PURCHASES OF U.S. SECURITIES.

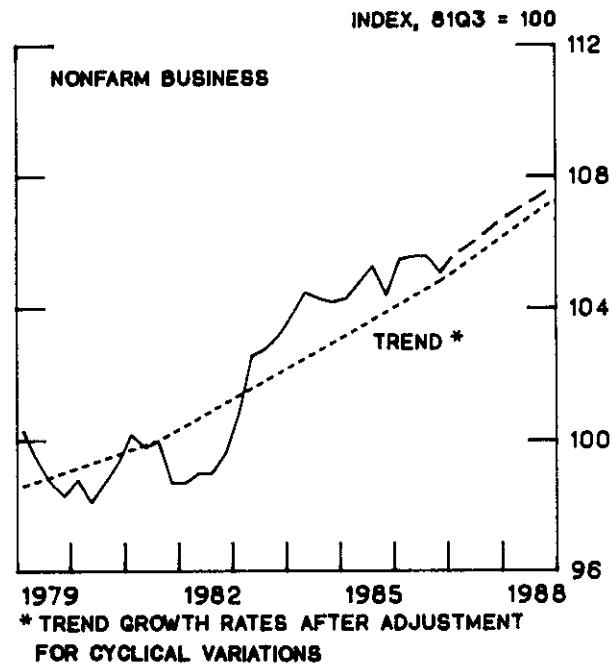
* LESS THAN \$500 MILLION

CHART 12

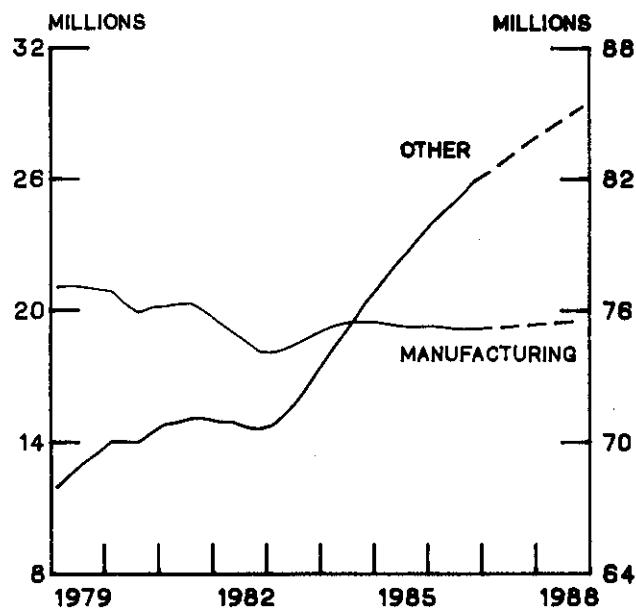
CAPACITY UTILIZATION



LABOR PRODUCTIVITY



PAYROLL EMPLOYMENT



LABOR FORCE PARTICIPATION

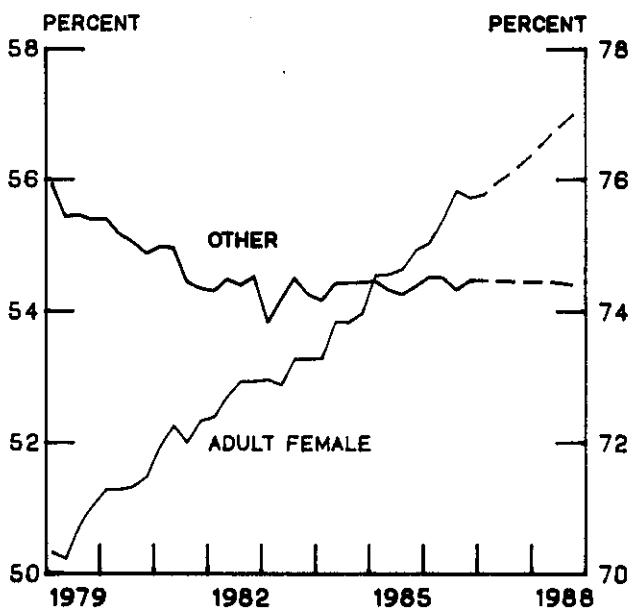
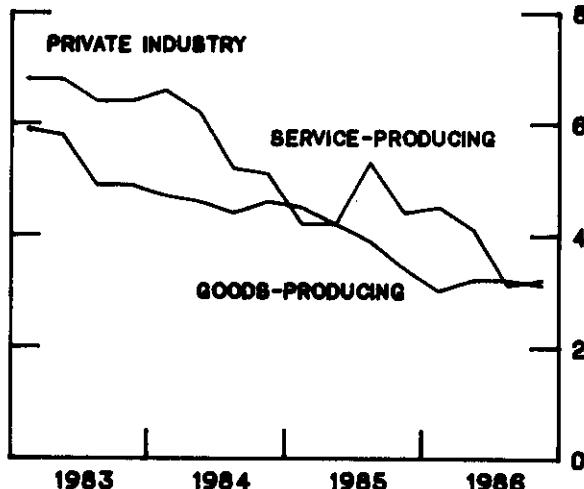
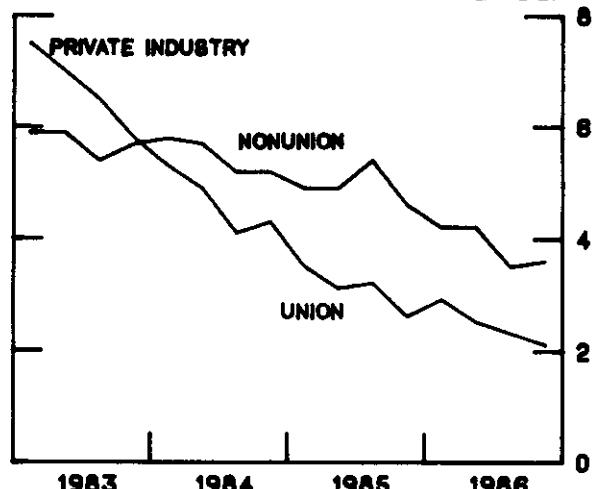


CHART 13

EMPLOYMENT COST INDEX
PERCENT CHANGE FROM YEAR EARLIER

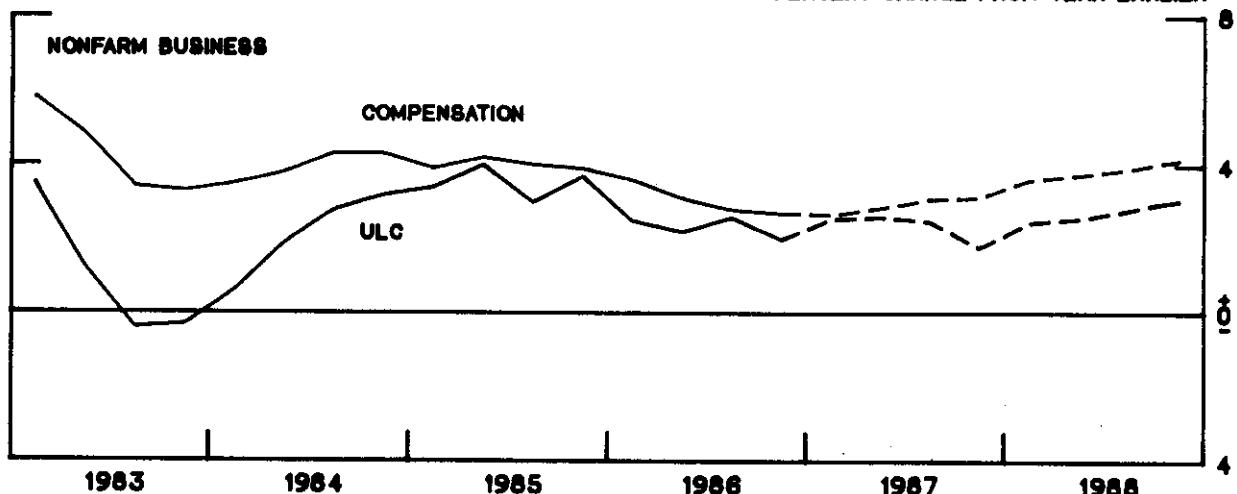


EMPLOYMENT COST INDEX
PERCENT CHANGE FROM YEAR EARLIER



COMPENSATION AND UNIT LABOR COSTS

PERCENT CHANGE FROM YEAR EARLIER



GNP AND PCE FIXED WEIGHT PRICE INDEXES

PERCENT CHANGE FROM PREVIOUS PERIOD

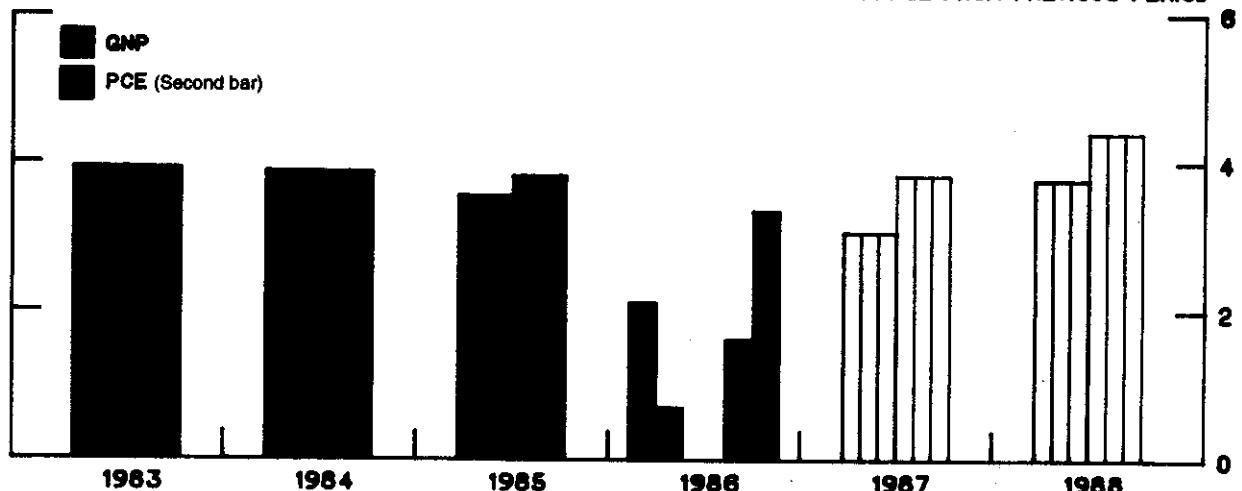
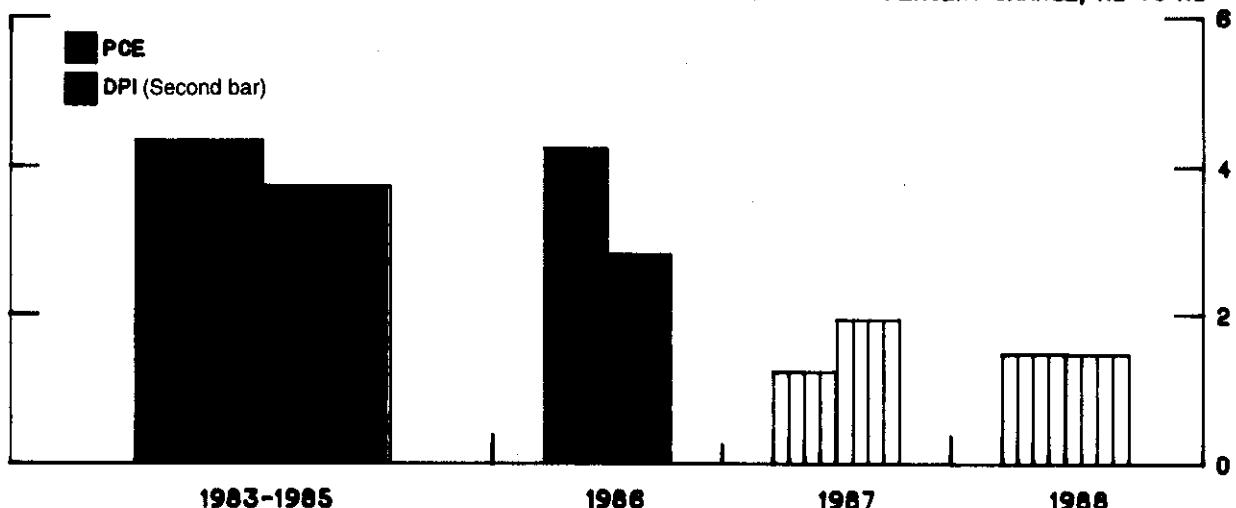


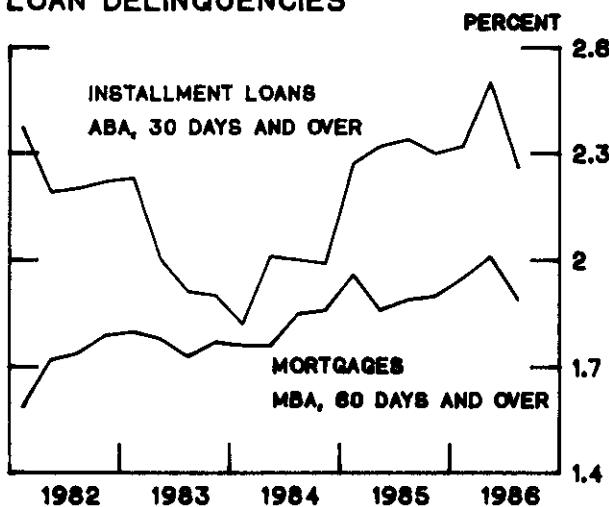
CHART 14

REAL PERSONAL CONSUMPTION AND DISPOSABLE INCOME

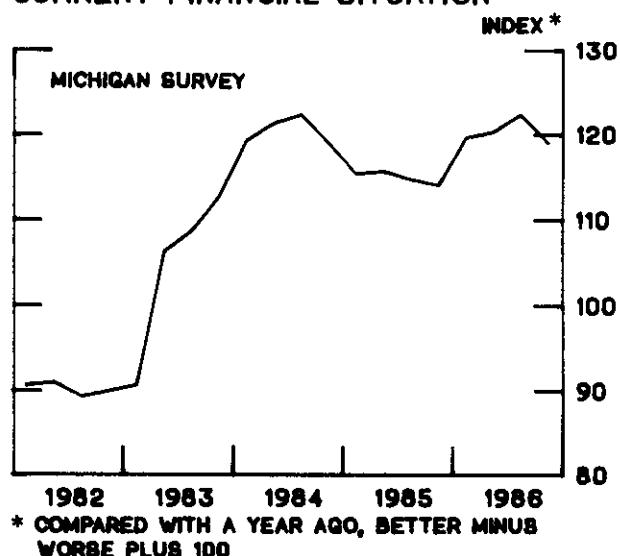
PERCENT CHANGE, H2 TO H2



LOAN DELINQUENCIES



CURRENT FINANCIAL SITUATION



PERSONAL SAVING RATE AND HOUSEHOLD NET WORTH RELATIVE TO DPI

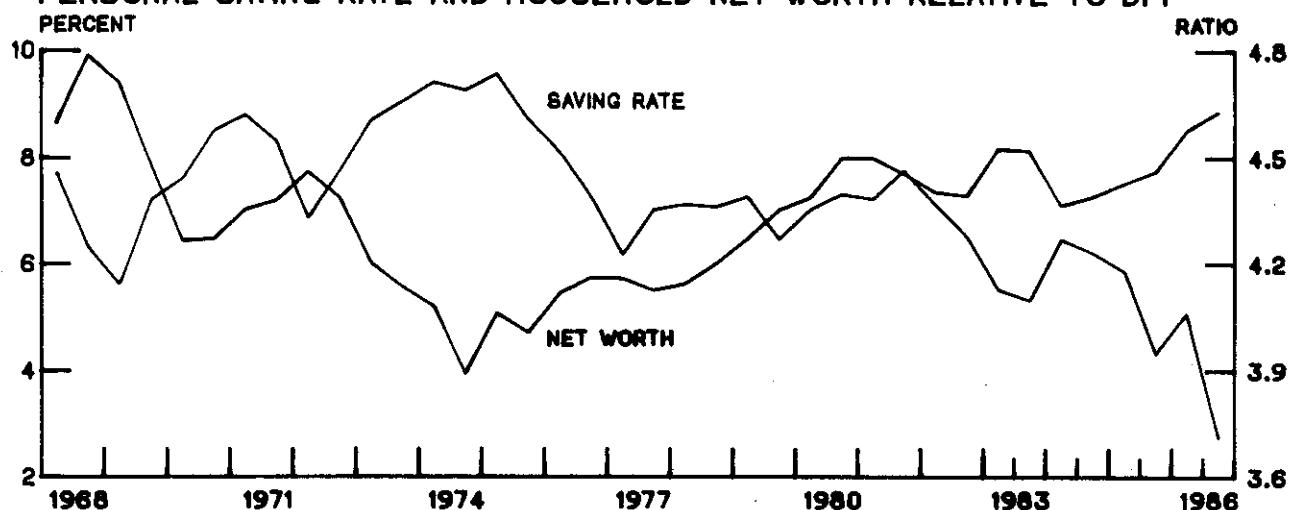
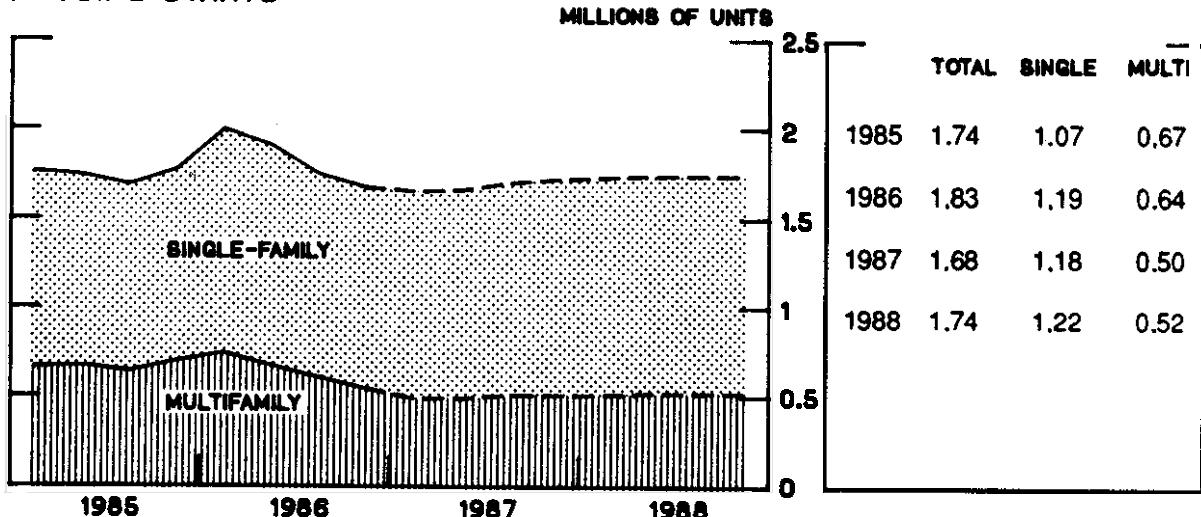
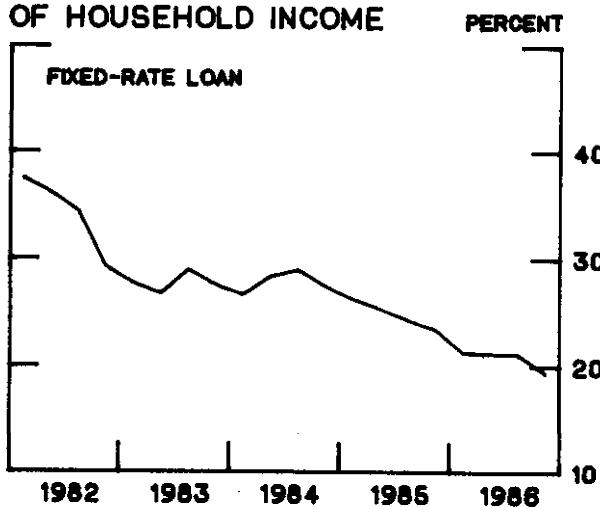


CHART 15

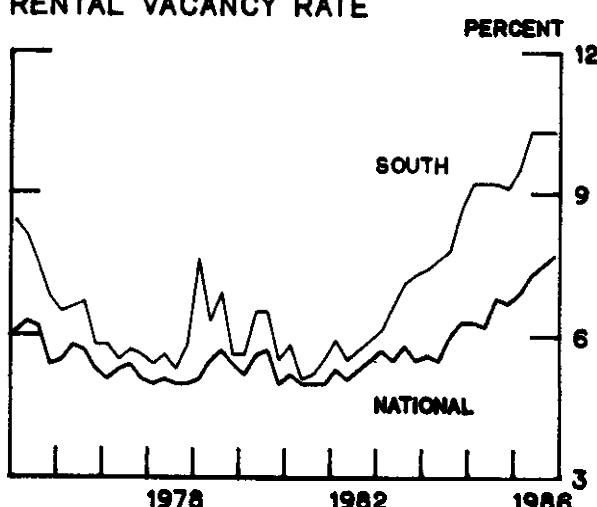
HOUSING STARTS



MORTGAGE PAYMENT AS PERCENT OF HOUSEHOLD INCOME

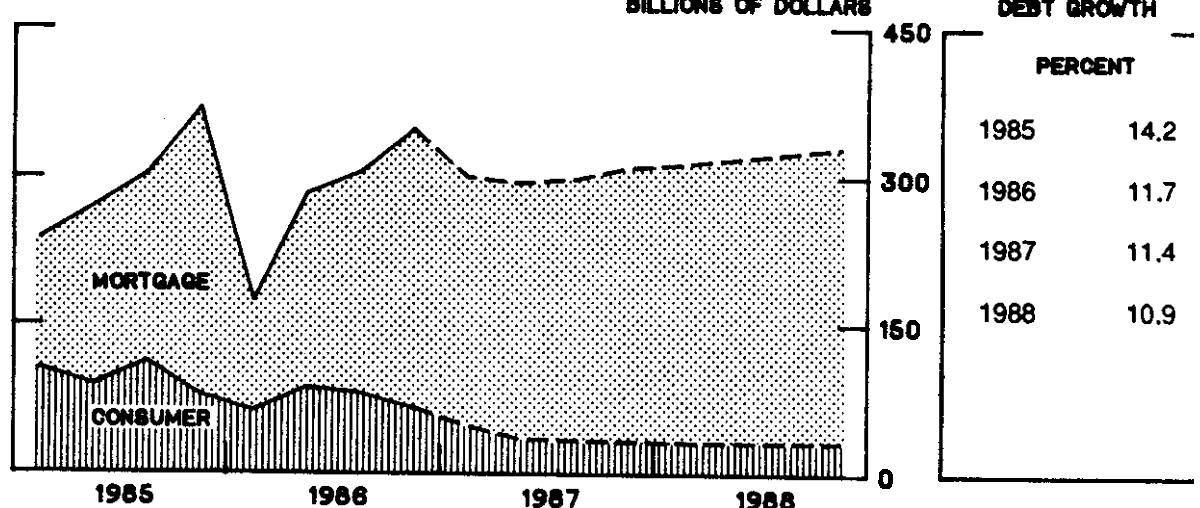


RENTAL VACANCY RATE



SELECTED HOUSEHOLD BORROWING

BILLIONS OF DOLLARS



HOUSEHOLD SECTOR DEBT GROWTH

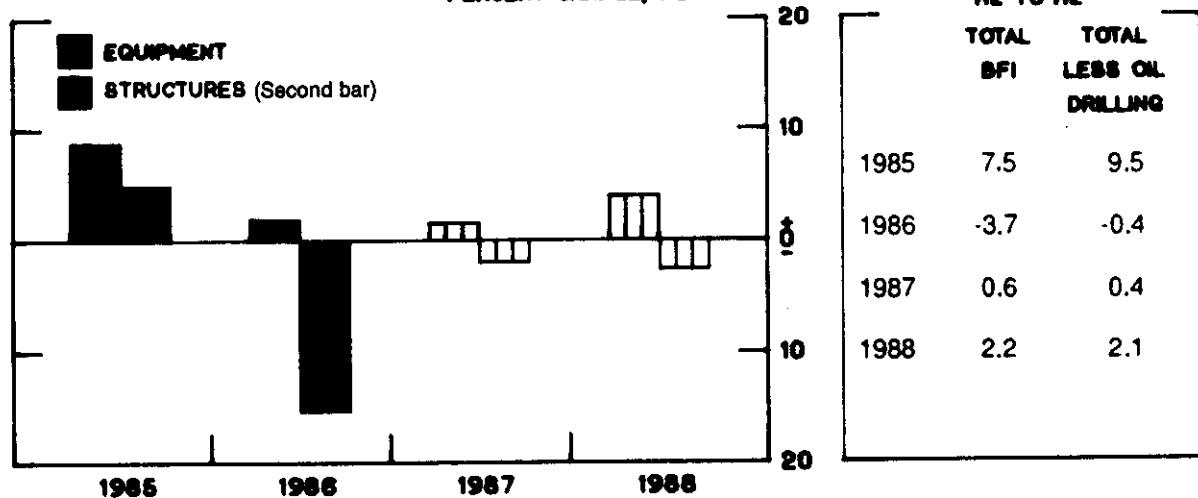
	PERCENT
1985	14.2
1986	11.7
1987	11.4
1988	10.9

450
300
150
0

CHART 16

REAL BUSINESS FIXED INVESTMENT

PERCENT CHANGE, H2 TO H2

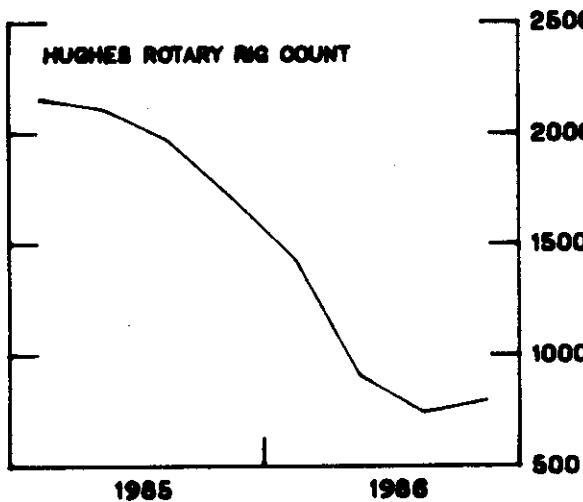


ANNUAL PERCENT CHANGES

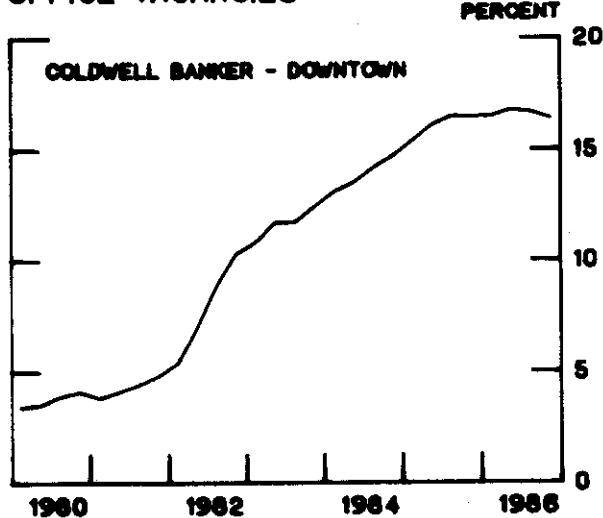
H2 TO H2

	TOTAL BFI	TOTAL LESS OIL DRILLING
1985	7.5	9.5
1986	-3.7	-0.4
1987	0.6	0.4
1988	2.2	2.1

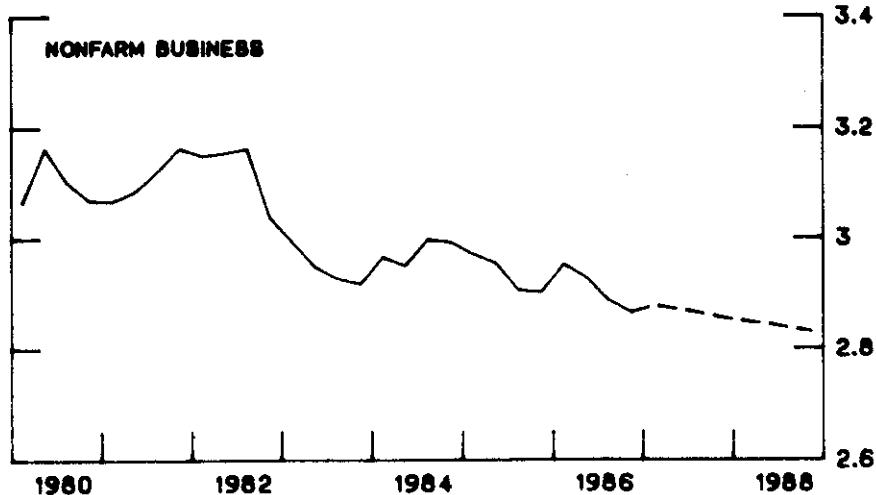
OIL DRILLING



OFFICE VACANCIES



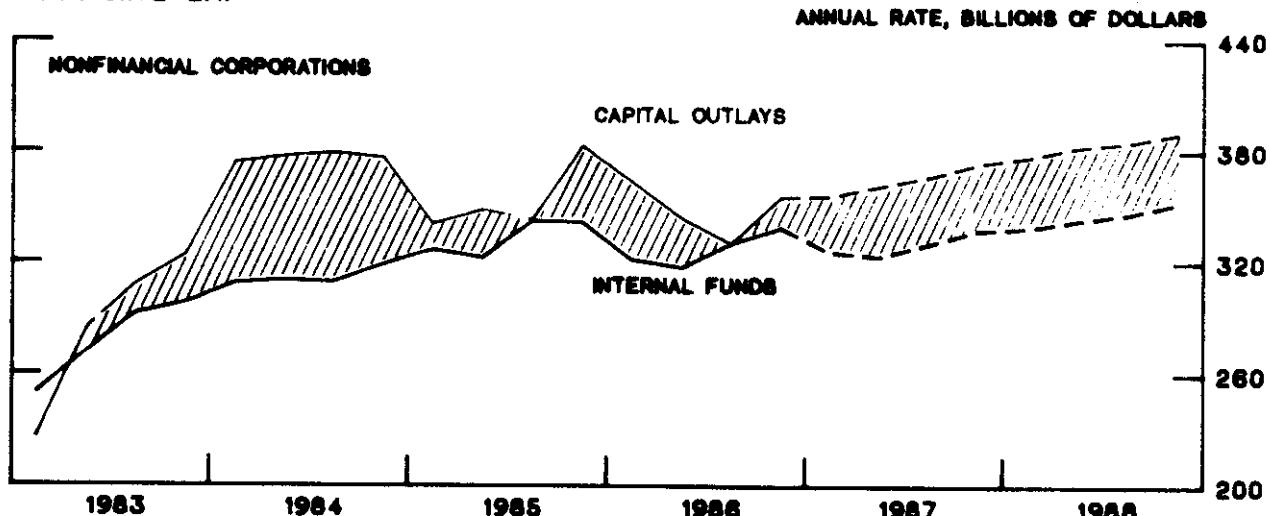
INVENTORY-SALES RATIO

INVENTORY INVESTMENT
NONFARM BUSINESS

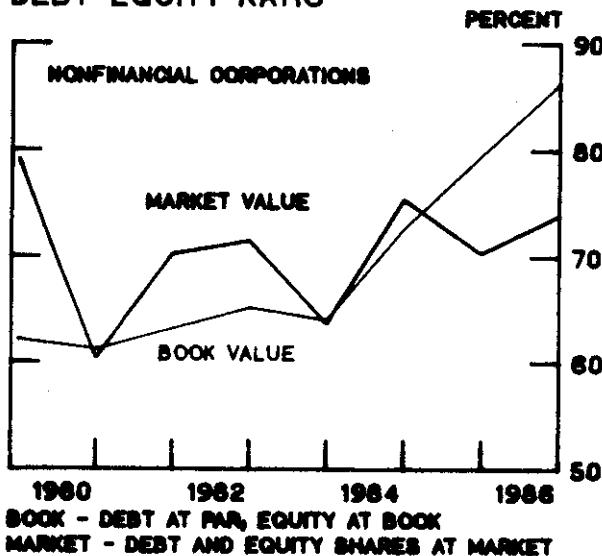
	BILLIONS OF 1982 DOLLARS
1985	10.9
1986	10.9
1987	14.8
1988	15.3

CHART 17

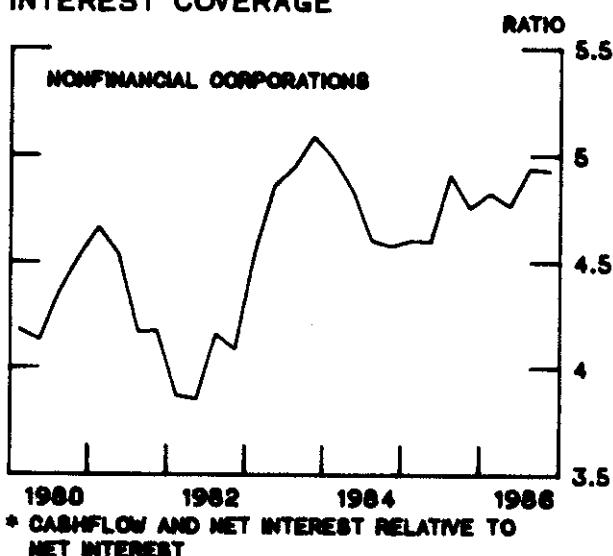
FINANCING GAP



DEBT-EQUITY RATIO



INTEREST COVERAGE*



NET FUNDS RAISED BY NONFINANCIAL CORPORATIONS

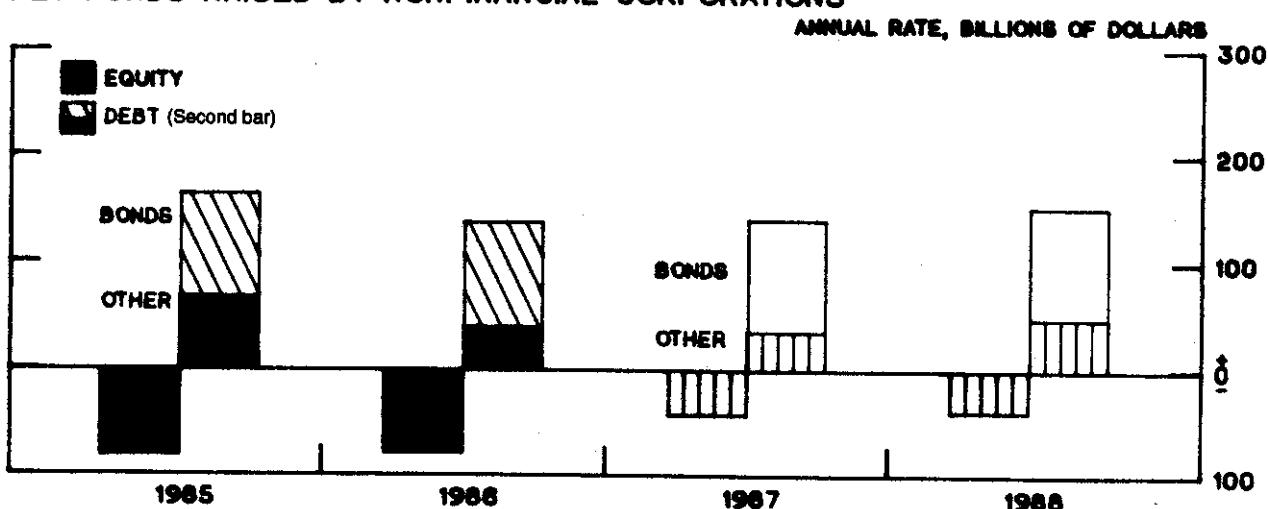
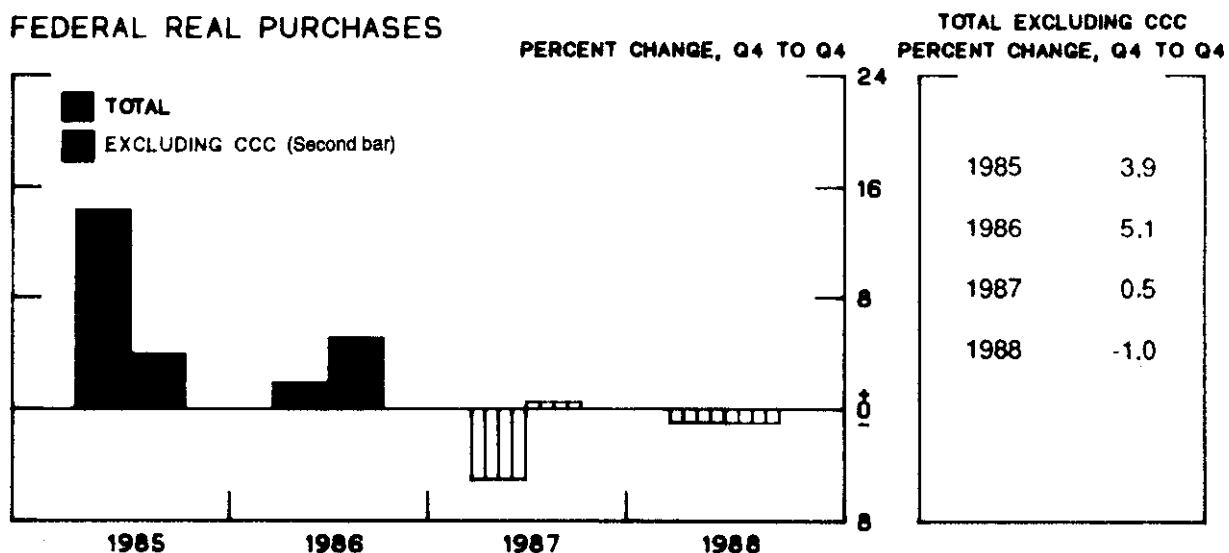
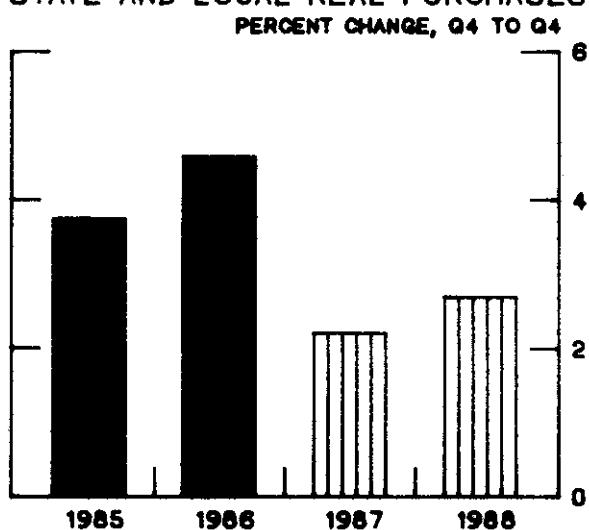


CHART 18

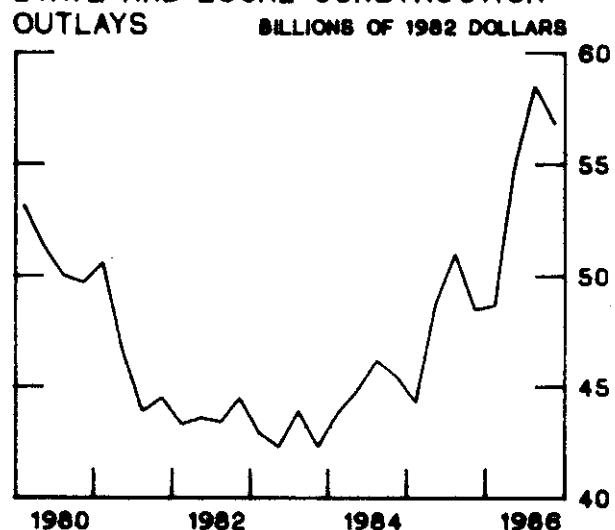
FEDERAL REAL PURCHASES



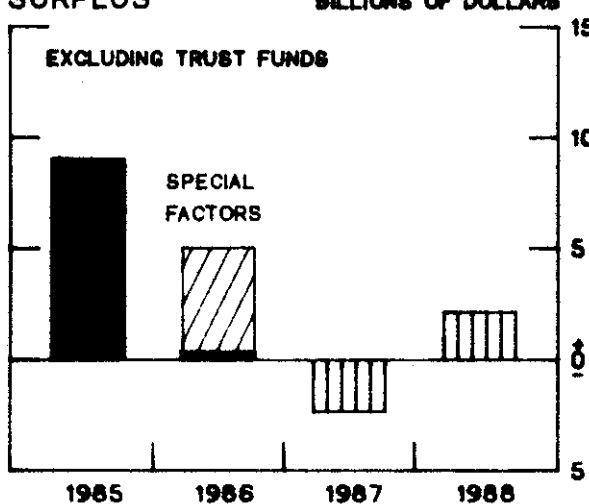
STATE AND LOCAL REAL PURCHASES



STATE AND LOCAL CONSTRUCTION OUTLAYS



STATE AND LOCAL OPERATING SURPLUS



STATE AND LOCAL NET BORROWING

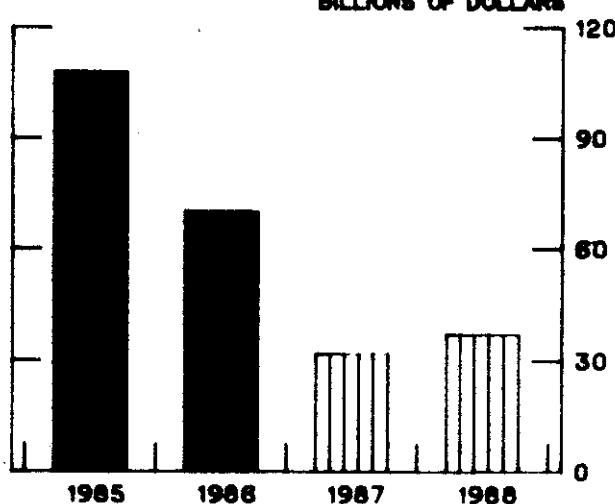
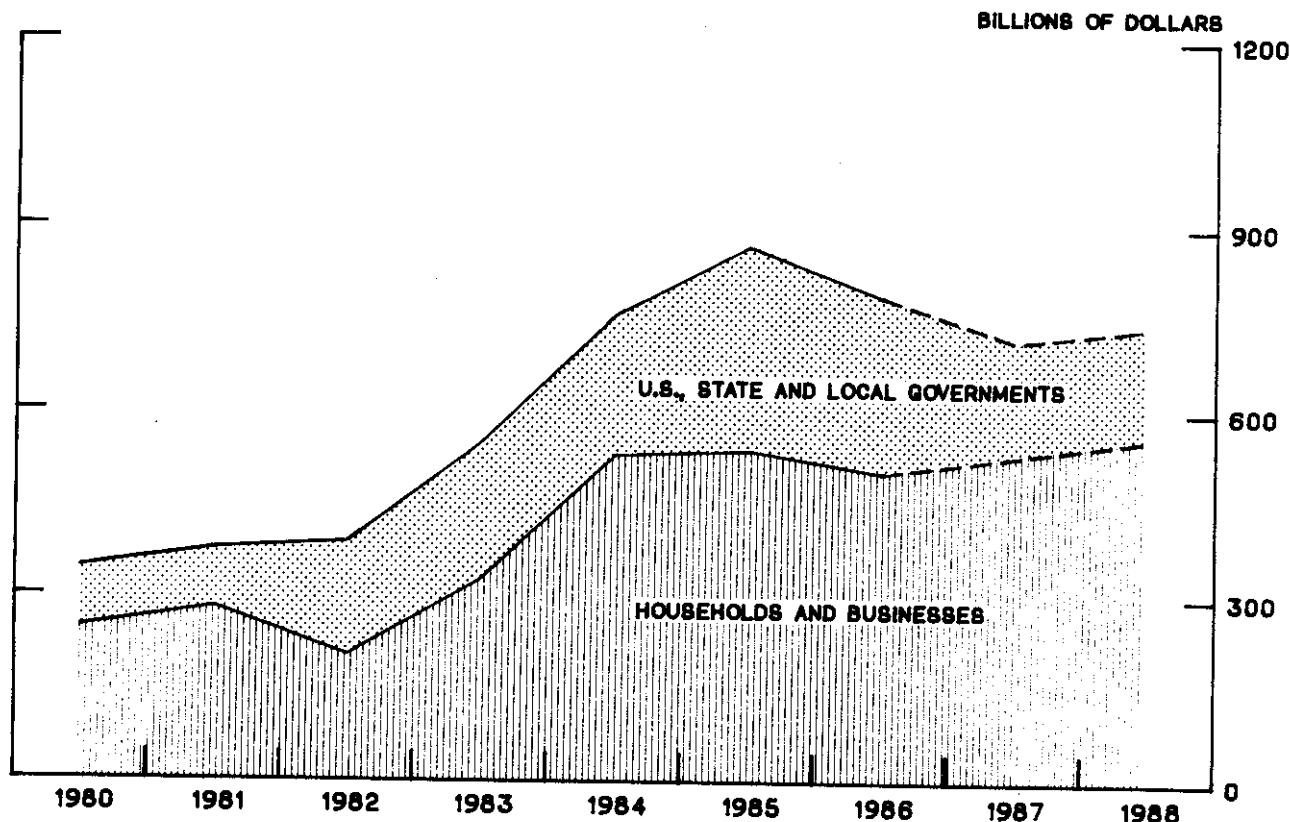


CHART 19

NET BORROWING BY DOMESTIC NONFINANCIAL SECTORS



GROWTH OF DEBT AND GNP

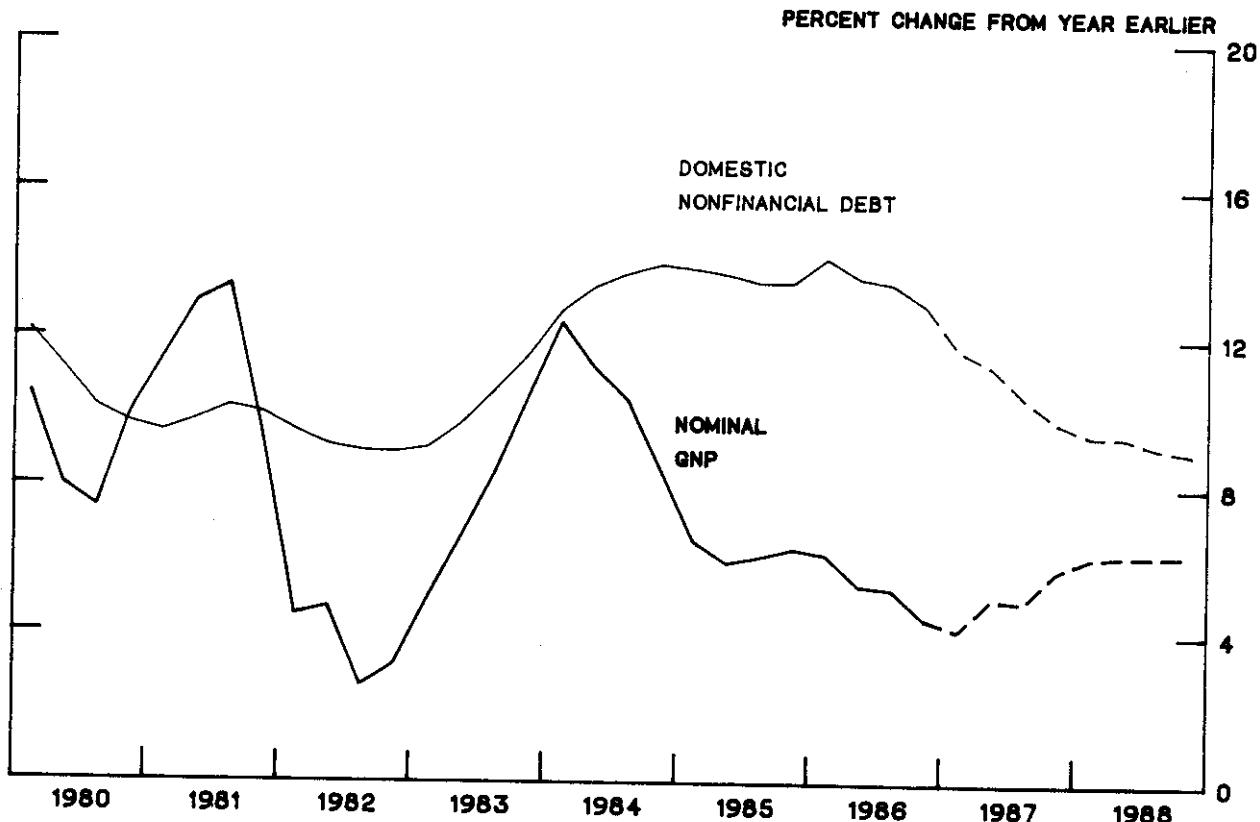


CHART 20**SUMMARY OF PROJECTIONS FOR 1987**

	BOARD MEMBERS		PRESIDENTS		STAFF	ADMIN. ISTRATION
PERCENT CHANGE, Q4 TO Q4	RANGE	MEDIAN	RANGE	MEDIAN		
NOMINAL GNP	4½ to 6½	5¼	5¾ to 7½	6	5¾	7
REAL GNP	2 to 4	2½	2½ to 3½	2¾	2¾	3¼
GNP DEFLATOR	2½ to 3	2½	3 to 4	3½	3	3½
AVERAGE LEVEL, Q4, PERCENT UNEMPLOYMENT RATE	6.5 to 6.8	6.7	6.4 to 6.8	6.7	6.6	6.5

PREVIOUS FOMC PROJECTIONS FOR 1987

REPORTED TO CONGRESS JULY 18, 1986		
PERCENT CHANGE, Q4 TO Q4	RANGE	CENTRAL TENDENCY
NOMINAL GNP	5 to 8½	6 to 7½
REAL GNP	2 to 4½	3 to 3½
GNP DEFLATOR	1½ to 4½	3 to 4
AVERAGE LEVEL, Q4, PERCENT UNEMPLOYMENT RATE	6½ to 7	6¾